

Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-08 TRSE-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 SOE-02 CEA-01 DODE-00
DOE-11 H-01 INT-05 L-03 PM-05 OES-07 SS-15
STR-07 ACDA-12 NSCE-00 SSO-00 USIE-00 INRE-00
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APPROVED BY NEA/ARP:JWTTWINAM
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EB/ORF/FSE:DHART(SUBS)
EB:RGOLD(DRAFT)
TREASURY:DMASLIN(SUBS)

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FM SECSTATE WASHDC
TO AMEMBASSY KUWAIT IMMEDIATE

C O N F I D E N T I A L STATE 057389

E.O. 11652:N/A

TAGS: EFIN

SUBJECT: KUWAITI CONCERN FOR DECLINE OF DOLLAR

REF: (A) KUWAIT 1250, (B) KUWAIT 1231

1. WHILE MARKET FLUCTUATIONS MAKE IT DIFFICULT TO SUPPLY
TALKING POINTS WHICH REMAIN CURRENT, DEPARTMENT BELIEVES
FOLLOWING GENERAL POINTS MAY BE USEFUL IN DISCUSSIONS
WITH KUWAITI OFFICIALS:

-- WITH THE INTERVENTION MEASURES ANNOUNCED IN JANUARY AND
OUR RECENT ACTIONS, THE U.S. HOPES THAT THE WORLD REALIZES
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THAT WE ARE NOT TRYING TO SOLVE OUR TRADE DEFICIT THROUGH
COMPETITIVE DEPRECIATION. WE WILL CONTINUE TO TAKE
ACTIONS TO COUNTER DISORDERLY EXCHANGE MARKET CONDITIONS.

-- U.S. RECOGNIZES THE IMPORTANCE OF REDUCTION IN ITS
CURRENT ACCOUNT DEFICIT. MAJOR ACTION WHICH U.S. ITSELF
NEEDS TO TAKE IS TO IMPLEMENT ENERGY POLICY. WE ARE BE-

GINNING TO CONSERVE ENERGY AND HOPE SOON TO HAVE AN OVER-ALL ENERGY BILL. BELIEVE LACK OF ACTION IS FACTOR IN CURRENT WEAKNESS OF DOLLAR IN FOREIGN EXCHANGE MARKETS.

SOMEWHAT MORE ECONOMIC GROWTH ABROAD AND THUS BETTER CONVERGENCE OF GROWTH RATES IN 1978 SHOULD PREVENT INCREASE IN U.S. DEFICIT. ALTHOUGH EFFECTS NOT LIKELY TO SHOW IN STATISTICS BEFORE LATTER PART OF YEAR. JAPANESE MEASURES TO REDUCE TRADE SURPLUS AND SPUR GROWTH WILL ALSO HELP.

-- WE RECOGNIZE THAT RECENT EXCHANGE RATE DEVELOPMENTS HAVE REDUCED THE DOLLAR'S PURCHASING POWER RELATIVE TO THE PURCHASING POWER OF OTHER MAJOR CURRENCIES. ALSO APPRECIATE CONCERN ABOUT THE IMPACT OF INFLATION ON HOST COUNTRY'S TERMS OF TRADE. IMPORTANT, HOWEVER, TO AVOID FOCUSING SOLELY ON LATEST DEVELOPMENTS.

A) PURCHASING POWER: RECENT EXCHANGE MARKET DEVELOPMENTS REPRESENT A REVERSAL OF THE GAINS IN RELATIVE PURCHASING POWER OF DOLLAR ACHIEVED IN THE PERIOD FROM MID-1975 TO MID-1977 FOR KUWAIT, THESE OFFSETTING CHANGES LEAVE THE PURCHASING POWER OF KUWAITI OIL REVENUES ONLY SLIGHTLY BELOW THE LEVELS IN EARLY 1974--THE PERIOD IMMEDIATELY FOLLOWING THE MAJOR OIL PRICE INCREASES.

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B) TERMS OF TRADE: OUR CALCULATIONS INDICATE THAT THE EXPORT PRICES OF OPEC'S PRINCIPLE SUPPLIERS HAVE IN FACT RISEN SLIGHTLY LESS THAN OIL PRICES. SINCE THE MAJOR OIL PRICE INCREASES IN 1973/74, THE EXPORT PRICES IN DOLLAR TERMS OF THE GOODS SOLD TO OPEC HAVE INCREASED BY ABOUT 19 PERCENT WHILE THE OPEC "GOVERNMENT TAKE" PER BARREL OF OIL ROSE ABOUT 32 PERCENT.

-- RECENT EXCHANGE RATE CHANGES DO NOT REFLECT ANY FUNDAMENTAL WEAKNESS IN THE U.S. ECONOMY. THE CURRENT ACCOUNT DEFICIT SHOULD BE FINANCEABLE ONCE MARKETS CALM DOWN A BIT AND RECOGNIZE THAT SITUATION IS IMPROVING.

-- OUR ECONOMY IS OUT-PERFORMING VIRTUALLY ALL OTHERS IN GROWTH AND CONTINUES TO ENJOY MUCH LOWER INFLATION THAN THE DEVELOPED ECONOMIES AS A WHOLE. OUR TRADE DEFICIT IS MORE THE RESULT OF SLOW GROWTH ELSEWHERE THAN ANYTHING ELSE. IT WILL DECLINE WHEN OTHER COUNTRIES BEGIN TO INCREASE THEIR GROWTH RATES. OPEC PRICE FREEZE IS MAKING AN IMPORTANT CONTRIBUTION TO IMPROVING CLIMATE FOR BETTER GROWTH.

-- U.S. COMPETITIVE POSITION REMAINS STRONG. U.S.
REMAINS AN ATTRACTIVE PLACE TO INVEST, WITH ONLY FINANCIAL
MARKET CAPABLE OF ACCOMMODATING OPEC INVESTMENT NEEDS.

-- WE HOPE THAT HOST COUNTRIES WILL CONTINUE TO WORK WITH
US IN MAINTAINING A STABLE SYSTEM.
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